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THE REGIONAL POLICY OF THE EUROPEAN UNION AND THE ENLARGEMENT PROCESS TO CENTRAL AND EASTERN EUROPEAN COUNTRIES

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ABSTRACT

The successive enlargement processes of the European Union have implied reforms in Regional Policy. Since the Single European Act (1987), Europe has got a structural policy mainly focused on regions whose development is lagging behind.

The accession of CEECs will mean an extraordinary increase in regional development disparities. However, the current EU Regional Policy is addressed to deal with such a kind of development lags. Competition in a large market combined with regional development policy of the EU is a successful policy mix to boost growth of CEECs in the framework of an open market economy.

The own success of regional policy in current objective 1 regions will led to an important reduction of assisted population. The financial perspectives approved in the Berlin Summit (March 1999) provides enough financial space to assist 90% of population in CEECs and 75% of current population under objective 1.

The main challenge involved in the successful extension of EU Regional Policy to CEECs lies in the field of management capabilities and administration reforms that must be carried out in these countries.

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1. ECONOMIC AND SOCIAL COHESION: PHASES AND PROGRAMMING PERIODS OF THE NEW EUROPEAN UNION REGIONAL POLICY

After the Single European Act (SEA)(1987) the integration process has been fostered in the European Community. There was a double track of progress. On the one hand, the unification of European markets and the bases for monetary union with the EU Treaty, Maastricht (1992), deepened integration, giving rise to economic and monetary union (EMU). On the other hand, the EU has been expanded up to 15 countries and more than 370 millions people.

The deepening of economic integration was followed by a big reform in the Regional Policy. The Regional Policy has achieved its present configuration after the introduction of the Economic and Social Cohesion principle in the EEC Treaty by the SEA in 1987. It was reinforced after the EU Treaty and the creation of the new Cohesion Fund.

The provisions of the SEA introduced the Economic and Social Cohesion as the backbone of European Regional Policy (old Article 130a EEC Treaty). The objective of strengthening Economic and Social Cohesion implies to promote the overall harmonious development of the EU by reducing regional disparities and, in particular, the backwardness of least-favoured regions. The ERDF and the other structural funds in a coordination framework are intended to help redress the main regional imbalances in the EU by participating in the development and structural adjustment of less developed regions and in the conversion of declining industrial regions and other areas with structural and/or employment problems.

After these changes in the Primary Community Law, both reforms of the Regional Policy were implemented. In 1988 the legislative works were completed and the funding for the new programming period 1989-1993 was approved (European Commission, 1989). Both, the general procedures and the financial amounts of the European Regional Policy were reformed giving it its modern structure. On the side of general procedures, a new scheme of planning and programming through negotiation among the different levels of competent public authorities was set up by means of the new instrument: Community Support Frameworks (CSF). On the side of the financial

amounts, the real value of funding allocated to Regional Policy was doubled in this first programming period 1989-1993 (Delors I package).

After the EU Treaty, (Maastricht 1992), the coordination and programming of structural funds were reinforced and their funding was doubled again in terms of real value. The legislative reform was completed during the year 1993 (European Commission, 1993, 1994a) and the new programming period 1994-1999 (Delors II package) got ready to start (European Commission, 1994b).

At the present time, at the edge of the century, the EU is facing some important challenges. On the one hand, on the grounds of fostering growth and competitiveness the EU must find its way in a global economy and meet the requirements of the World Trade Organization (WTO). On the other hand, the consolidation of European Monetary Union (EMU) and the starting of the enlargement process towards Central and Eastern European Countries (CEEC) are fundamental aims of the EU. The strategic framework to meet these challenges has been put forward by the European Commission in the “Agenda 2000”, where the financial guidelines for the next planning period 2000-2006 were also drawn up (European Council, 1999b, 1999c, 1999d, 1999e).

These guidelines for medium-term implementation and funding of the main EU policies have been agreed at the Berlin Summit (European Council 1999a), where a coherent framework to link expenditures commitments and foreseen resources has been stated out by the European Council. The European Union’s expenditure must respect the imperative of budgetary discipline required for stability in the EMU, it also has to ensure the orderly development of EU policies and to cope effectively with the process of enlargement.

The figures in the next table show the main structural features of the new European Regional Policy through its three programming periods from 1989 to 2006. It can be seen the increasing real value of funds allocated to structural actions both in terms of total amounts and in terms of annual average.

Table 1: Economic and Social Cohesion: the Figures of the Regional Policy

PROGRAMMING PERIODS STRUCTURAL OPERATIONS Billions Ecus 1999		1989-93		1994-99			2000-06	
		Total	Annual Average	Total	Annual Average	Year 1999	Total	Annual Average
Structural Funds		74.821	14.964	166.911	27.818	32.119	195.000	27.857
O B J 1	Amount	48.046	9.609	103.061	17.177	19.818	135.900	19.414
	% Objectives	69,6%	---	68.0%	---	---	74.5%	---
	% Total Stral. Funds	64.2%	---	61.7%	---	---	69.7% ^a	---
Cohesion Funds		1.746 ^b	---	17.364	2.894	2.894	18.000	2.571
Future Acceding and New Member Sates		---	---	---	---	---	47.780 ^c	8.254
Total Funding		76.567	15.313	184.275	30.712	35.013	260.780	38.682

^a Only 1993, ^b 65,4% without transitional support , ^c New MS increasing amounts starting from 2002

Source: Annual Reports on Structural Funds (European Commission) and Conclusions of the Presidency from the Berlin European Council (March 1999).

In accordance to the Economic and Social Cohesion principle, it has been started up a concentration process of the structural funds in the most needed areas and specially in the regions whose development is lagging behind, the objective 1 regions. The concentration process in the structural funds is implemented through a reduction of the total percentage of assisted population, leaving aside objective 1 regions. Although, as it will be seen in the conclusions of this paper, the amount of population assisted for the different objectives can not be independent of the distribution of development disparities and structural problems across the European Union.

This principle of concentration has permitted to face with good perspectives the new period 2000-2006. The percentage of the structural funds going to objective 1 regions has increased up to 65.4 (69,7% considering the regions with transitional assistance). In such a way, a level of enough assistance has been kept for the objective 1 regions and financial space has been created to pay attention to the enlargement process both for the

pre-accession, financial instrument and PHARE program as well as for the structural actions in the new member States, (future acceding countries after 2002).

Concentration in most needed areas is in the core of the arrangements drawn up by the European Council in the Berlin Summit to cope with financial stability, assistance to regions with structural problems and enlargement to CEE countries. This is clearly emphasized in the conclusions of the Berlin Summit:

“Improving the effectiveness of the structural and Cohesion funds in achieving the goal of economic and social cohesion enshrined in the Treaty is a central plank of the Agenda 2000 reforms. This goal has to be maintained in the future as priorities continue to evolve in a more diverse Union, taking account of the aim of achieving greater concentration of structural assistance, improving the financial management of the structural funds as well as simplifying their operation and administration”
(Presidency conclusions - Berlin European Council 24 and 25 March 1999)

2. STRUCTURAL ACTIONS AND GROWTH IN OBJECTIVE 1 REGIONS

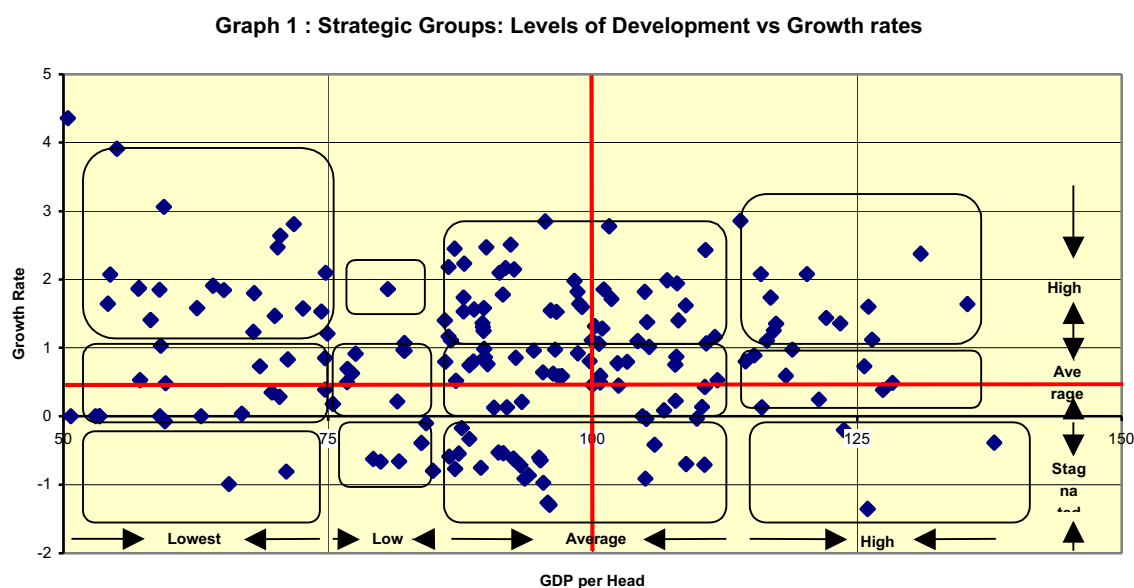
One striking feature of the regional growth pattern in the EU is the high growth potential shown by the less developed regions. Since 1986 Regional strategic planning and programming with support from the Structural Funds have facilitated in many of the weaker regions supply-side improvements, a strengthening of their productive potential and a shift into higher value-added sectors (see reports European Commission, 1991, 1996a, 2000). Before, income disparities had increased since 1975 (Tondl 1997, European Commission 1996b, Armstrong 1995, Dunford 1993). Although a closer appraisal of these regions whose development is lagging shows that their performance and the degree of catch-up has not been uniform (Tondl 1997, Tsoukalis 1992, Bradley et al. 1995, Axt 1992, Baussola and Fiorito 1994, Alogoskoufis 1995), that strategic group of regions have become one of the most energetic groups in the EU.

Another striking feature is that an important percentage of the GDP (almost 13%) is placed on stagnated¹ regions with an average development level. This shows the importance of the assistance to the Objective 1 regions in order to boost the total growth of the EU.

EU has a problem of global competitiveness that is mainly focus in large proportions of its total GDP being placed on stagnated regions with average development levels. This fact does not fit with the convergence argument that comes from the neo-classical growth model and which predicts a decreasing relationship between rates of growth and development levels. On the contrary the distribution of regional growth rates by development levels (graph 1) shows a “U” profile in the EU-15 for the period 1989-1997. This “U” profile would indicate that the regions with average development levels would decrease (Chaterij, 1993, Quah, 1996a, 1996b, 1997) and a process of concentration of regions in the lowest and highest levels of income would emerge. This model of growth that implies a higher polarization of the regional growth is the so called “twin peaks” model. It is created what Baumol called convergence “clubs”,

¹ In the graph we make the differences between three classes of growth (stagnated<0, 0<average<1 and high>1) to meet four types of development levels (lowest< 75%, 75%<low<85%, 85%<average<110% and high>110%). Growth is measured through intervals of their accumulative growth rates over the period 89-97 and the development levels is measured in relation to the average GDPph EU-15. These figures have been computed from EUROSTAT data of real GDP per head in PPS.

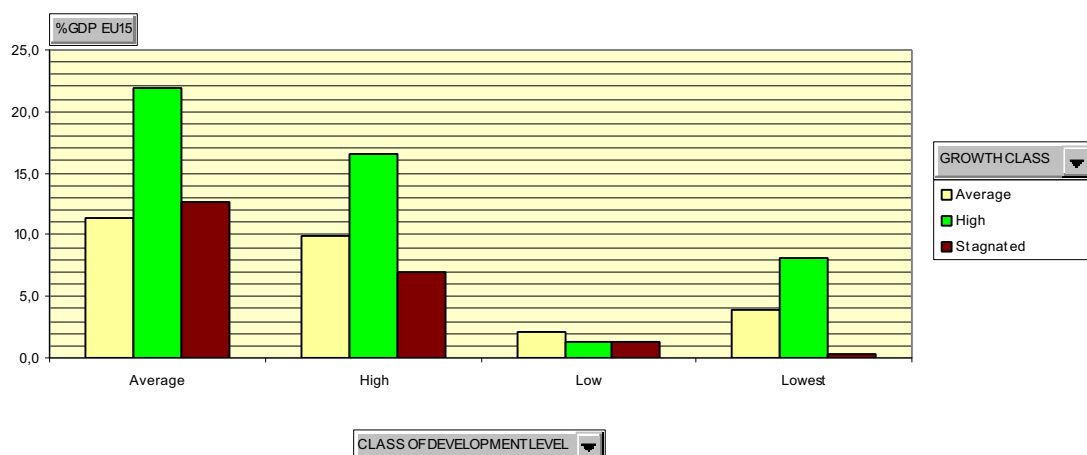
polarize either in the highest or in the lowest levels of income (Ben-David 1994, Quah, 1996a, 1996b, Fagerberg and Verspagen, 1996).



The distribution of growth profiles (graph 2), in terms of percentage of the EU GDP, of each group of development level in the EU, shows a clear image of the stagnated sector of regions with an average development level.

NUTS2 (Todas)

Graph 2: Growth Profiles in Terms of % GDP EU-15



An important part of the European Union GDP is stagnated in regions whose level of development is average or high. Over the period 89-97 In the first ones it reaches 12.6% of the total EU GDP, and in the second ones 6.9%. For the same period of time the

figures for the regions whose development is low was 1.3%, and for the objective 1 regions was 0.3%.

All of this shows that the EU has a general problem of competitiveness and some sort of tendency to a stagnated situation that can not be solved by a selective tool such as the Regional Policy. Even though the Regional Policy has had a very important contribution to the growth of the European Union because of it has favoured the growth dynamism of objective 1 regions, placing the 8.1% of the total GDP of the EU in high growth and 3.9% of the total GDP in average growth.

3. CENTRAL AND EASTERN EUROPEAN COUNTRIES, REGIONAL POLICY AND THE EUROPEAN MARKET

Accession to the European Union will mean a big opportunity for Central and Eastern European Countries (CEECs). EU is offering to these countries a powerful development strategy which is based on a combination of market competition and development policy:

- Competition in a large market within the framework of European Economic and Monetary Union will foster competitiveness in domestic sectors and attract foreign direct investment to take advantages from new business opportunities.
- EU also offers a development structural policy focused on the regions whose development is lagging behind. This development policy is not a price support policy but an investment policy that prompts to take advantages of the competitive forces derived from the integration in a larger market.

Competition in a large market combined with regional development policy of the EU is a successful policy mix to boost growth of CEECs in the framework of an open market economy.

The regional development policy is conducted in a planning and programming framework based on a partnership system. Planning and programming documents are elaborated through consultations with social and economic agents. Community Support Frameworks (CSFs) are elaborated through consensus among the different governmental levels (Regional, Member States' Central Governments, European Commission) and are formally approved by a Decision of the European Commission. Operational Programmes, mainly regional integrated operational programmes, are the policy tools to implement the regional development strategies and investments also contained in the CSFs. They are also submitted for approval to the European Commission by Member States, and their management is conducted under steering and monitoring committees.

Management of structural funds is a complex task to be accomplished by competent administrations at central and regional levels. It must be compatible with the legal and policy framework of the EU (with competition rules, specially the discipline of state aids). EU must guarantee not only the full investment of funding resources, but also a right and efficient way to address expenditure allocations. Management is a key factor for the success of the EU regional development policy. CEECs must carry out strong

efforts to achieve the required management capabilities. This implies remarkable administrative reforms and a parallel training of human resources both in the civil service and in other involved managerial sectors.

To help in preparing market economy and administrative structures to accession the EU Regional Policy has been extended to CEECs through new instruments such as Phare programme and Pre-accession instruments. These actions involved a lot of technical assistance, training and administrative cooperation.

In the context of an open and competitive economy, immersed in the trends of globalisation and change towards new lines of progress based on the new technique-economic paradigm of the information society, the knowledge and the innovation, it is necessary to reinforce the factors of regional competitiveness and highlight not only the concepts of regions whose development is lagging behind, but only a wide range of criteria that ensure a good level of competitiveness. Such factors are, territorial accessibility and transport, research and innovation, education and vocational training, productive structure and so on.

In a general way these new dimensions and criteria could be introduced through the ESDP whose guidelines are focus in searching a polycentric development spread in an harmonic and balanced way all over the European territory. However, this wide range of dimensions and criteria entails a great deal of risk because of dispersion and enlargement in the areas that can be assisted. All of this can damage the effectiveness that the European Regional Policy has achieved because of its concentration, in the personal and financial sphere, on the regions whose development is lagging behind.

The main challenge for the ESDP is to achieve its goals under the conditions of enlargement. There will be special circumstances in the Accession Countries (Clarify how the investments will be implemented by the public sector, avoid or reduced foreseeable conflicts between the different policy fields, low economic potential), that makes the spatial coordination plays a greater role in the Accession Countries than in the current Member States. This concerns, in particular:

a) The planning for the expansion of trans-European transport infrastructure and the Community's transport policy.

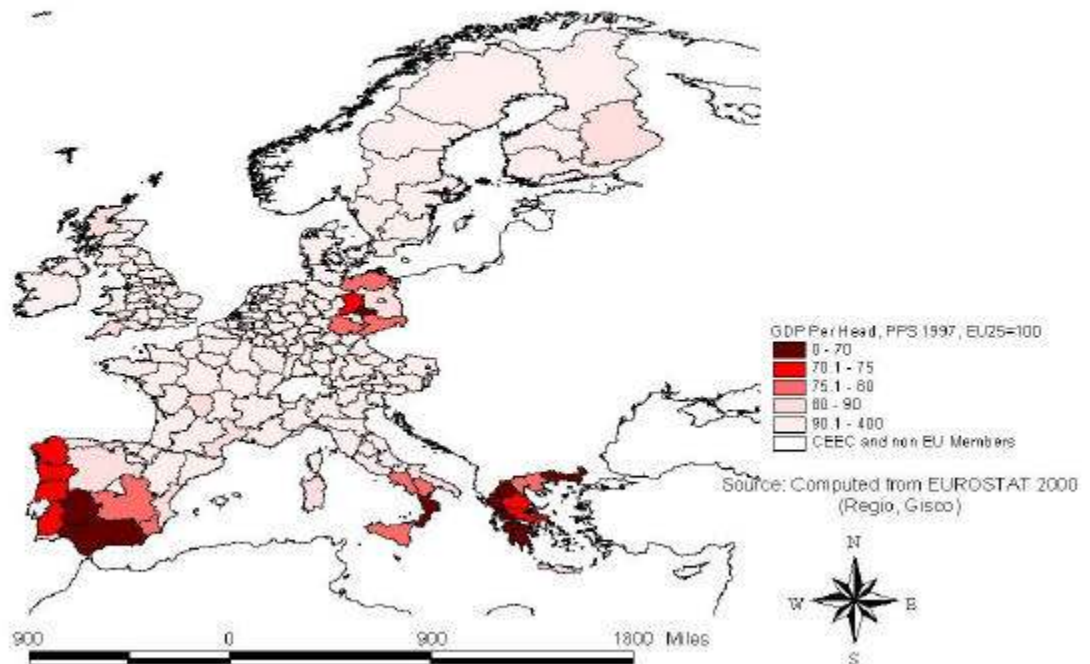
b) Measures for ecological restoration, in particular, of old industrial zones.

c) Measures for structural adjustments in rural regions.

More intensive cross-border co-operation and trans-national cooperation in spatial development will support the integration process in the enlargement area.

Moreover, EU enlargement to the Central and Eastern European Countries (CEEC) affects the Regional Policy, because of its present concentration in the regions whose development is lagging behind (Objective 1 regions). CEE countries' accession will imply a contraction effect on the statistical threshold of GDP ph defining Objective 1 regions (see map EU-25), because this countries have lowest levels of development (There are also objective 1 regions for reasons of low population density –northern areas in Scandinavian countries- and of ultraperipherality –oceanic isles: Canary, Azores, Madeira, French dominions). A very important group of regions whose development is lagging behind could not longer be objective 1 regions, because of the contraction effect on the statistical threshold of reference. Another important group of them could not longer be objective 1 regions because its own dynamic of growth (the boost effect of its convergence towards the average GDPph of the current European Union), but an important part of the present objective 1 regions have the risk of losing this condition because of the contraction effect on the statistical threshold and only in a small measure because of the boost effect towards the convergence. The following maps where the levels of GDPph are shown for the current European Union's Regions in the case of an hypothetical enlargement of the EU to 21 and 25 members, provides an illustration of regional positions' range.

MAP 1: GDP Per Head in PPA in 1997
(Europe 25=100)

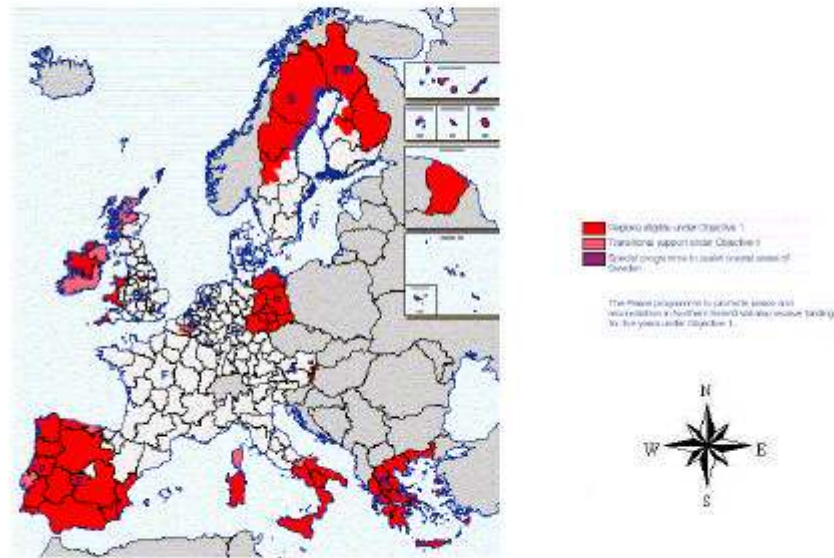


Only a few regions could be in conditions of combine a noticeable boost effect of convergence with a reasonable perspective of being in the group of objective 1 regions. The remaining ones, would be placed (just because of the contraction effect on the statistical threshold of reference), in upper levels to 70% of average GDPph EU-25 , so a very little boost effect of convergence would make that these regions lose their objective 1 condition.

These regions would experiment a dramatic and premature withdrawal of assistance which is a key factor in order to prompt its growth potential and overcome the handicaps and vicious circles of the structural lag. This result would harm those areas where the Structural Funds are more effective for contributing to the growth.

It is important to keep the concentration and effectiveness of the Community Regional Policy and the contribution of the structural funds to most deserving regions because they combine both, lowest development levels and high growth potential. The important thing is give to these regions the conditions to compete on their own.

Map of the areas eligible under Objective 1 of the Structural Funds in 2000-2006



Several ways can be found to apply this compensation, the common denominator could be: To consider as a objective 1 regions in the period immediately after to the accession, those regions of the present European Union whose GDPph are below 75% of the EU-15 average GDPph.

The comparison of this map with previous ones in this section shows that the situation is not so dramatic as at the beginning it could seem in less developed regions. A very important part of the current objective 1 regions will not longer be objective 1 due to their growth dynamism, some of them would not already meet the criteria of the 75% of the average GDPph in 1997.

Taking account the present situation in the current UE-15 the population in regions below the 75% average GDPph should diminish in an important proportion (a reduction close to 25%) at the end of the current programming period. This fact let more financial space for a bigger concentration of the assisted population and for paying more attention to the needs of other objectives, such as restructuring and unemployment. However, in a hypothetical UE-21 or UE-25, because of the low level of development and GDP ph, a wide majority of regions of the future acceding countries, would be objective 1 regions. Because of that, one of the enlargement effects, should be an increasing percentage of population in objective 1 regions.

With regard to the concentration in terms of population assisted, if we take into account the evolution of current objective 1 regions which will in the next years overcome the threshold of 75% the average GDP per head in 1997 for the EU-15, the population assisted under the objective 1 could be placed in the range 15.6%-16.6%. Adding the 90% of the population in acceding CEECs (EU-25) the percentage of population assisted under objective 1 in the future EU-25 will increase up to 31%. That is to say a total concentration of assisted population of 47% under the assumption of maintaining the current EU-15 assistance by objective 2.

So, the way out of an important number of present objective 1 regions at the end of the programming period 2000-2006, because of their growth dynamism in the current EU-15, will open enough financial room for assistance to future CEE acceding countries. This will allow within the financial framework of Agenda 2000 and the Berlin European Council to create funding space for the structural actions to the future acceding countries under the enlargement hypothesis up to 25 countries. This will be seen in the next section.

5. FINANCIAL FRAMEWORK FOR STRUCTURAL ACTIONS AFTER THE ASSUMPTION OF ENLARGEMENT TO EU-21 BEFORE 2006

The guidelines for medium-term implementation and funding of the main EU policies have been agreed at the Berlin Summit (March 1999), where a coherent framework to fit expenditures commitments and foreseen resources has been stated out by the European Council. The European Union's expenditure must respect the imperative of budgetary discipline required for stability in the EMU, besides an efficient pattern of spending among the various headings (Agriculture, Structural actions and Regional Policy, Internal Policies, External Action, Pre-Accession Aid and Enlargement) must also ensure the orderly development of EU policies and to cope effectively with the process of enlargement.

The conclusions of the Berlin European Council over the "Agenda 2000" set out the guidelines for policy reforms and draw up the framework to fund them over the medium-term, in order to ensure that the Union will be in a good position to face the challenges of the forthcoming period and to have success in its future enlargement. In the context of the EU enlargement, both the financial perspective for the current EU-15 and the indicative financial framework with six future acceding countries (EU-21) were drawn up on the basis of the working assumption of the accession of new Member States starting from 2002. Table 2 defines the framework for action in the main EU policies both for the current members of the EU and the foreseeable framework of a Union enlarged up to 21 members States.

TABLE 2: FINANCIAL PERSPECTIVES (EU15) AND FINANCIAL FRAMEWORK (EU21)

EUR Million 1999 prices- Appropriations for commitments	A: FINANCIAL PERSPECTIVE EU15		B: FINANCIAL FRAMEWORK EU21	
	2000-2006	Year 2006	2000-2006	Year 2006
1 .AGRICULTURE	297.740	41.660	297.740	41.660
CAP expenditure (excluding rural development)	267.370	37.290	267.370	37.290
Rural development and accompanying measures	30.370	4.370	30.370	4.370
2. STRUCTURAL OPERATIONS	213.010	29.170	213.010	29.170
Structural Funds	195.010	26.660	195.010	26.660
Cohesion Fund	18.000	2.510	18.000	2.510
3. INTERNAL POLICIES	42.350	6.200	42.350	6.200
4. EXTERNAL ACTION	32.060	4.610	32.060	4.610
5. ADMINISTRATION	33.660	5.100	33.660	5.100
6. RESERVES	4.050	400	4.050	400
Monetary reserve	1.250	0	1.250	0
Emergence aid reserve	1.400	200	1.400	200
Guarantee reserve	1.400	200	1.400	200
7. PRE-ACCESSION AID	21.840	3.120	21.840	3.120
Agriculture	3.640	520	3.640	520
Pre-Accession structural instrument	7.280	1.040	7.280	1.040
PHARE (applicant countries)	10.920	1.560	10.920	1.560
8. ENLARGEMENT			58.070	16.780
Agriculture			12.410	3.400
Structural operations			39.580	12.080
Internal policies			3.950	850
Administration			2.130	450
TOTAL APROPRIATIONS FOR COMMITMENTS	640.470	90.260	702.780	107.040
CEILING ON APROPRIATIONS FOR PAYMENTS	685.870	103.530	685.870	103.530
Appropriations for payments as % of GNP	1.15%	1.13%	1.12%	1.09%
Margin	0.12%	0.14%	0.14%	0.18%
Own resources ceiling	1.27%	1.27%	1.27%	1.27%

SOURCE: Conclusions of the Presidency, Berlin European Council 24-25 March 1999.

The previous table reflects the total amounts of expenditures in the different headings for the present EU-15 (financial framework) and for the EU-21 under the hypothesis of enlargement (financial framework) over the period 2000-2006.

The foreseeable amount of resources and the Community financial rules on the Own resources ceiling are shown in these frameworks. The reserve margin that results from them is also stated out in the last row of the table.

In the financial framework for the EU-21, the total number of headings is expanded to 8, this last relative to the actions in the new member States. The table reflects as well the annual appropriations for commitments foreseen for the year 2006. Taking into account the 2006 figures for structural actions we are going to do a simple simulation exercise to check the financial space for extending objective 1 aid to CEEC. The average objective 1 funding per head in the current programming period is used in computations. The current objective 1 regions are those from commission decision of 01-07-1999, but at the end of the programming period, the population meeting the threshold of 75% of average EU-15 GDPph (around the base year 2000) is expected to reduce around 25%.

The simulation shown below based on the 97 data of GDPph provides an approach to the financial envelop for structural aid to the regions whose development is lagging behind (objective 1 regions) in a future enlarged European Union. The hypothesis we manage is quite simple. We make the following two assumptions:

1. One quarter of the current population in objective 1 regions (EU15) overcomes (without statistical convergence) 75% of the GDPph EU15 due to its own growth dynamics.
2. Objective 1 assistance is provided to 90% of CEEC population (the assistance provided to the 12 CEEC-aid per head- is the same than in the current objective 1 regions). This means an increase in the assisted population by the objective 1 regions that in the enlarged Union will be around 32%, without consider the transitional aid because of losing the objective.

The computed financial envelop is not a reasonable political aim, due to the increase in differences and development needs should be related with an increase in the funds allocated for the structural actions to foster the economic development. The goal of the computed financial envelop is to show that the objective 1 development policy of the EU is extendible to CEEC within the current ceiling of the EU own resources (1.27% of the GNP. Definitely, it is possible both, the enlargement of the regional policy to the CEEC and the correction of the “statistical effect” in the current objective 1 regions.

The simulation will be made by computing the required financial amounts and fitting them into the amount of resources foreseen for objective 1 and allied structural actions for the year 2006 (Objective 1 foreseen resources) in the EU-21 financial framework stated out by the Berlin European Council.

The total foreseen amount of resources in the financial framework for the structural actions in objective 1 regions for 2006 will be obtained by adding the amounts (already foreseen) in the 2006 annuity for the future and new member States under the headings of structural operations and pre-accession aid.

The results achieved with these hypothesis are shown in the following tables:

TABLE 3: NEEDS FOR REGIONAL DEVELOPMENT POLICY (Objective 1 Structural Assistance) AND FINANCIAL ENVELOP 2006 (Meuros 99)

FORSEEN RESSOURCES IN 2006 FINANCIAL FRAMEWORK			
Objective 1 and non agriculture Enlargement Structural Expenditure			
Current EU 15 Obj. 1			17.435
Pre-accession Aid (non agricultural)			2.600
Enlargement Structural Operations			12.080
TOTAL for Structural Actions F.F. 2006			32.115
0,45 % of 2,15% PNB Growth for 2007			919
(Financial Framework Hypothesis for 2006)			
TOTAL RESSOURCES for Objective 1			33.034

NEEDS	Average Aid Per Head *	
Objective 1 Structural Aid	2006	2000-06
Current EU-15 Obj. 1 75% current assisted pop.	13.077	13.664
CEEC 12 (90% Population)	19.884	20.777
TOTAL NEEDS Obj. 1	32.961	34.441
RESSOURCES - NEEDS	73,1	-1.407,0

If we do some simple calculations (table 2 and table 3) for structural operations, under the “big bang” enlargement hypothesis on the ground of 2006 allocation in the Financial Perspectives EU-15 and Financial Framework EU-21 (table 1), it can be seen that it is possible to fit in the 2007 projection of the financial envelop from current 2000-2006

financial framework an extended objective 1 EU development policy which provides the average aid per head foreseen for current objective 1 regions in the 2006 annuity to 75% of current EU15 objective 1 population and 90% population of future acceding CEEC (12). However, average aid per head in objective 1 is decreasing along the period, so its 2006 amount (209417 euro) is less than the whole period average 218820 euro. The gap to achieve the 2000-06 average aid per head can be full up by assigning an additional 0,015 % of GNP to Objective 1, placing the Structural Actions to GNP ratio in the neighbourhood of 0,465 %. In fact this ratio could be lower once the GNP of the last 6 candidates is taking into account in the computation of the financial framework which is currently based on the enlargement hypothesis of only 6 new member States. Other arrangements can be made, however this one could be enough taking account of accessions timing -The 12 CEEC having acceded by 2007 is a highly unlikely hypothesis-.

6. CONCLUDING REMARKS

Regional disparities in the European Union will be extraordinary increased by the accession of CEECs. There is a considerable lag of economic development in most regions in the area.

EU Regional Policy has become to a large extend in a development structural policy which is concentrated mainly in regions whose development is lagging behind (Objective 1 regions, below 75% of average EU GDP per head). This development policy carried out through structural funds is fully compatible with the market competition. It does not imply a price support policy, but it is an investment policy addressed to reinforce competitiveness and take advantage of new business opportunities in an open market economy.

Objective 1 regions in the current EU has been one of the most dynamic groups in achieving high growth rates and catching-up. An important part of regions whose development is lagging behind in the current EU are placed on the way out of objective 1 because of their own growth dynamism. CEECs will bring a high growth potential to the EU. Moreover EU is offering a great opportunity to these countries. They will benefit from a powerful development strategy which is based on right combination of

market competition and investment development regional policy. To a great extent the current EU regional policy after the principle of Economic and Social Cohesion has become a very suitable instrument to provide a development policy which is needed in most areas of future acceding CEECs.

With regard to the concentration in terms of population assisted, if we take into account the evolution of current objective 1 regions which will in the next years overcome the threshold of 75% the average GDP ph in 1997 for the EU-15, the population assisted under the objective 1 could be placed in the range 15.6%-16.6%. Adding the 90% of the population in acceding CEECs (EU-25) the percentage of population assisted under objective 1 in the future EU-25 will increase up to 32%. The way out of an important number of present objective 1 regions at the end of the programming period 2000-2006, because of their growth dynamism in the current EU-15, will open enough financial room for assistance to future CEE acceding countries. This will allow within the financial framework of Agenda 2000 and the Berlin European Council to create funding space for the structural actions to the future acceding countries. Some simple calculations for structural operations on the ground of 2006 allocation in the Financial Perspectives EU-15 and Financial Framework EU-21 show that the enlargement process is compatible with keeping concentration in objective 1 regions. There is enough financial room in the 2006 annuity to provide the current level of average aid per head in objective 1 regions to 7% of current assisted population and 90% of the total population in CEECs.

Management of structural funds is the main challenge to cope with in the accession process. For instance the weaknesses in the administrative system constrained the effects of the first Greek CSF (Georgiou, 1993, European Commission 1996c, 1997a). Other example would be also the first and even the second CSF in Italian Mezzogiorno (Leonardi 1995, European Commission, 1995b, 1996c, Roeger 1996, Svimez 1996b). As this have been shown crucial in those regions, CEECs must carry out strong efforts to achieve the required management capabilities.

Other important line of reform is concerned with the territorial coordination of sectoral policies and investments of infrastructure. A Suitable policy framework has to be built to guarantee the spatial coherence of measures according to the guidelines of the European Spatial Development Perspective. The main challenge for the ESDP is to achieve its goals under the conditions of the enlargement.

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